DOCUMENT RESUME

ED 455 671 EF 005 969

| | |
|---|---|
| TITLE | More and Better Schools with Repeal of Prevailing Wage. Special Report. |
| INSTITUTION | Washington Research Council, Seattle. |
| PUB DATE | 1999-12-20 |
| NOTE | 9p. |
| AVAILABLE FROM | For full text: http://www.abc.org/documents/washington4.pdf. |
| PUB TYPE | Opinion Papers (120) |
| EDRS PRICE | MF01/PC01 Plus Postage. |
| DESCRIPTORS | Comparative Analysis; *Construction Costs; Elementary Secondary Education; Public Schools; *School Construction |
| IDENTIFIERS | Cost Containment; *Wage Compliance Standards; *Washington |

ABSTRACT

This report examines "prevailing wage" and school construction costs in Washington state by first examining 1985 through 1999 data on the state's school construction financing levels, the percentage of local share of funding, comparisons of average actual square foot cost versus the state's area cost allowance, and bond election successes versus failures by calendar year. The report then explains that prevailing wage laws increase construction costs by 10 to 15 percent, overcharging taxpayers and contributing to the public's perception of state-mandated inefficiency. Since Washington taxpayers are strongly expressing their desire for frugal spending, the report concludes that the state legislature should repeal the prevailing wages law. (GR)

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY

Stu Witmer

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
This document has been reproduced as received from the person or organization originating it.
Minor changes have been made to improve reproduction quality.
Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

ED 455 671

# Special Report

Washington Research Council December 20, 1999

# More and Better Schools with Repeal of Prevailing Wage

Every year, Washington's school districts ask for more money to improve educational facilities than voters are willing to approve. With this demand and voters' insistence on efficiency, every dollar they do have should stretch as far as possible.

The state's prevailing wage law undermines that objective. It needlessly inflates the cost of school construction and remodeling.

The law requires contractors to pay their workers "prevailing wages" when engaged on public construction projects. Typically, these so-called prevailing wages are the same as those that have been negotiated by construction unions with private construction firms, even though most construction workers are nonunion . On private-sector projects, many construction firms pay less than union wages.

## Briefly

**Washington's law requiring construction firms to pay their workers "prevailing" wages when working on public projects needlessly inflates the costs of those projects.**

**The Research Council estimates that but for the prevailing wage law, for every eight schools that school districts now build, they could build a ninth at no extra cost.**

**Builders and architects experienced with building schools in Washington and in Idaho, which has no prevailing wage law, figure that prevailing wages increase construction costs by 10 to 15 percent. This range is consistent with cost-inflation estimates in other states saddled with prevailing wage laws.**

**Washington taxpayers have strongly expressed their desire for frugal public spending. Our prevailing wage law overcharges taxpayers and contributes to the public's perception of state-mandated inefficiency. The Legislature should repeal the law.**

There's no question that the prevailing wage requirement forces school districts to pay more than they otherwise would for school construction and remodeling. The question is, how much more? An architect who has designed schools in both Washington and Idaho, which has no prevailing wage law, estimates that prevailing wages increase costs by 10 to 15 percent in Washington.

Based on a survey of Spokane-area contractors, the Research Council estimates that school districts would save 12.7 percent of construction costs were the Washington law repealed. In 1999, $555 million of local school construction qualified for state matching funds. The savings on these projects alone would exceed $70 million.

108 S Washington St, Suite 406 • Seattle, Washington • 98104-3408 • (206) 467-7088 • FAX (206) 467-6957 • www.researchcouncil.org

EF 005 969

Full text available at:
http://www.abc.org/documents/washington4.pdf

BEST COPY AVAILABLE

## Bond Elections by Calendar Year

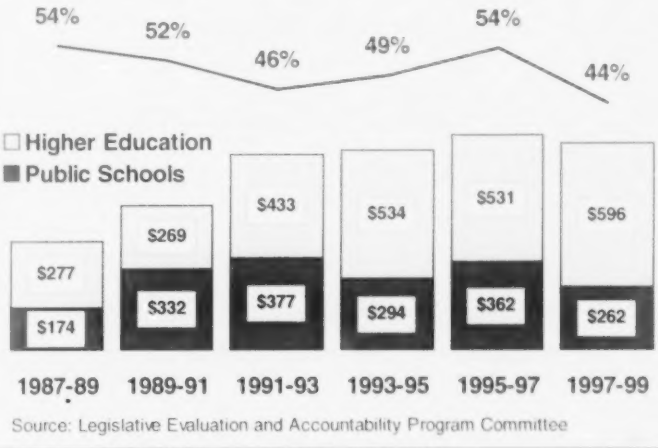
| | SUCCESS | FAILURE* | TOTAL |
|---|---|---|---|
| 1984 | $266,082,312 | $521,736,000 | $787,818,312 |
| 1985 | $14,783,500 | $152,770,032 | $167,553,532 |
| 1986 | $432,702,274 | $194,780,220 | $627,482,494 |
| 1987 | $146,548,705 | $272,496,512 | $419,045,217 |
| 1988 | $571,377,000 | $292,146,764 | $863,523,764 |
| 1989 | $108,169,843 | $171,541,095 | $279,710,938 |
| 1990 | $942,668,006 | $449,097,672 | $1,391,765,678 |
| 1991 | $361,300,462 | $988,245,586 | $1,349,546,048 |
| 1992 | $604,759,177 | $2,226,862,500 | $2,831,621,677 |
| 1993 | $212,686,000 | $570,630,731 | $783,316,731 |
| 1994 | $1,038,345,517 | $1,769,539,857 | $2,807,885,374 |
| 1995 | $131,450,000 | $783,561,487 | $915,011,487 |
| 1996 | $421,404,000 | $962,286,442 | $1,383,690,442 |
| 1997 | $408,240,000 | $729,243,606 | $1,137,483,606 |
| 1998 | $770,452,508 | $571,190,944 | $1,341,643,452 |
| 1984-1999 | $6,430,969,304 | | |

*Note that a bond request that fails in one year may be resubmitted and approved in a subsequent year.

Source: OSPI

FIGURE 1

FIGURE 2




This estimate is consistent with estimates made in other parts of the country about the cost-inflating effects of prevailing wages. In 1978, for instance, a Florida State School Board Association survey found that during the previous four years, during which Florida school construction had been exempted from prevailing wages, taxpayers saved about 15 percent on total construction costs.

Much the same thing was found in Ohio 10 years later. In 1998, Ohio's Legislative Budget Office (LBO) issued a first-year report on the 1997 prevailing-wage law exemption for school construction and renovation projects. It said that based on surveys completed by contractors, school construction savings averaging 10.2 percent were possible.

## Voters reject the majority of bond levy requests

School construction and remodeling money in Washington is scarce. In 1998, Washington school districts asked voters to approve a total of $1.341 billion in bonds for school improvements. Only 57 percent, or $770.5 million, was approved. (See Figure 1.)

During the 15-year period 1984-1998, voters approved a total of $6.4 billion. In an average year they rejected about 60 percent of requests.

In a recent survey by the Washington Association of School Administrators, 177 responding school districts, serving about 65 percent of public-school students in this state, reported that 61,152 students were attending classes in

portables. And 10,047 students were being "housed in other spaces not intended for use as classrooms."

These school districts also reported a total of 557 buildings that are at least 20 years old and "in need of modernization."

The state supplements money raised by school districts according to a statutory formula designed to provide the average district with half its capital needs. Currently, state matching funds average about 30 percent of total construction costs.

Districts qualify for state aid based on their need to house more pupils and on their ability to raise enough money to cover their share of project costs. Many districts receive no state funds.

The state draws the money it uses to subsidize school construction and remodeling from the Common School Construction Fund, which is fed mainly by revenue from the sale of timber on state lands. Since 1982, this revenue has failed to provide enough state-matching funds. Since 1990, the Legislature has augmented the construction fund with appropriations from the general fund. For the next biennium, legislators may have to appropriate up to $150 million to beef up the construction fund.

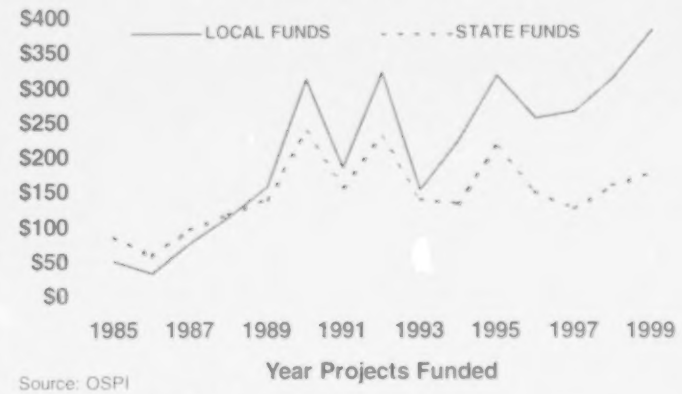
## State funding for school construction has not kept pace with local funding

Sometimes the state has been unable to provide enough money to subsidize all the school-district projects that are eligible for state

FIGURE 3

### Summary of State and Local Funding

(Millions of Dollars)




Source: OSPI

Note: Excludes projects receiving no match

FIGURE 4

### Local Share of Funding

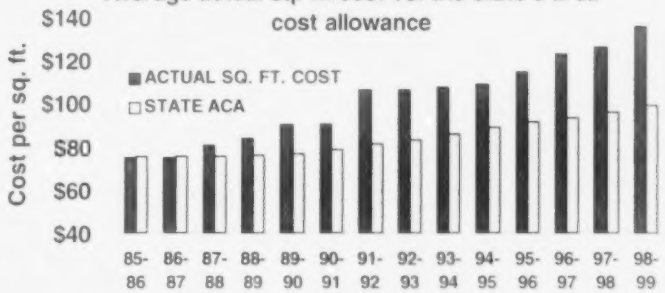
Note: Excludes projects receiving no match

Source: OSPI

FIGURE 5

### New Construction Projects

Average actual sq. ft. cost vs. the state's area cost allowance




Source: OSPI

BEST COPY AVAILABLE

# Estimating the Cost Savings

The percentage cost savings resulting from eliminating the prevailing wage requirement is the product of two numbers: the percentage that labor costs would fall were the requirement eliminated and the labor share of total costs.

**Labor cost savings**

The Research Council surveyed 12 Spokane area nonunion contractors, asking each to identify major categories of workers that they employed and their hourly wage and benefit costs. This resulted in a total of 28 observations that could be compared with prevailing wages. In 21 cases the contractors provided a range of hourly pay rates; in the remaining 7 cases, just the top pay rate.

We have calculated savings using both the top values of the pay ranges and the mid-points of the ranges.

Looking first at the top values of the ranges, the nonunion pay rates run from a low of 46 percent of the prevailing wage to a high of 99 percent. The mean value is 73 percent of the prevailing wage, while the median is 71 percent.

Alternatively using the mid points of the reported pay ranges, the mean nonunion pay rate is 68 percent of the prevailing, the median 66 percent.

**Labor's share of costs**

We estimate labor's share of a project's cost to be 48 percent. This is the labor share that is implicit in the R. S. Means City Cost Indexes for building construction. (R. S. Means Company, Inc. Kingston, MA.)

This number is consistent with estimates provided to the Research Council by professionals. The staff at Architects West indicated that labor represents roughly 50 percent of the cost of constructing a school. Dean Haagenson of Contractors Northwest similarly estimated the labor share at 50 percent.

**Percentage savings in school construction costs**

Combining the four alternative estimates of "average" nonunion pay rates as a percentage of prevailing wages with the 48 percent figure for labor's share yields estimates of the savings possible with the elimination of the prevailing wage requirement ranging from 12.7 percent to 16.5 percent.

| | Mean | Median |
|---|---|---|
| Top value | 12.7 percent | 13.9 percent |
| Mid-Point | 15.5 percent | 16.5 percent |

To be conservative we will use the least of these four measures, 12.7 percent, as our estimate of the cost savings for school construction possible in the Spokane area from the elimination of the prevailing wage requirement.

Based on his experience working both in Idaho, which does not have a prevailing wage law, and Washington, Jim Christiansen, of Architects West in Coeur d'Alene Idaho, estimates that Washington's prevailing wages add 10-15 percent to school costs. Our estimate falls in the middle of this range.

matching funds. This occurred seven times during the past 15 years, the most recent of which was 1995.

School projects have put heavy demands on state capital spending. During the past six biennia, public schools averaged $300 million and higher education $440 million in the state's capital budget. Together they averaged about 25 percent of total capital outlays, and about 50 percent of nontransportation capital spending, as shown in Figure 2.

The state has been unable to supplement school-district construction spending at a steady ratio. Since the early 1990s, the proportion of school-district spending as a percentage of total project construction costs has been increasing. As a result, the average percentage of construction costs born by local property-tax payers has jumped dramatically. From less than 40 percent during 1985-1986, it soared to nearly 70 percent in 1999. (See Figures 3 and 4.)

The state has determined how much it will fund the cost of each square foot of school construction (allowed cost) as well as how many square feet of each project it will subsidize. Over time, project construction costs have outpaced the state's match, as seen in Figure 5.

## Repealing the Prevailing Wage law would free up more money for school construction

The state law requiring the payment of prevailing wages on public construction forces taxpayers to pay more than they otherwise would for school construction and remodeling. Public agencies, which should see to the efficient use of taxpayers' money, are forbidden to accept bids from construction firms paying wages voluntarily agreed to by their workers if those wages are lower than the so-called prevailing wages.

How wasteful is the prevailing wage law? Architects West, in Coeur D'Alene, has designed schools in Washington and Idaho, which has no prevailing wage requirement. Based on his experience in both states, architect Jim Christiansen estimates prevailling wages add between 10 and 15 percent to project costs in Washington.

An informal survey of a dozen Spokane-area nonunion construction firms suggests that allowing such firms to bid on school construction could, conservatively, save taxpayers in the neighborhood of 27 percent on labor costs, and 12.7 percent on overall project costs.

Recall that in 1999, funding for school construction projects eligible for a state match totaled $555 million. Were the 12.7 percent cost reduction projected for Spokane achieved statewide, repeal of prevailing wages would yield a savings of more than $70 million. So for every eight schools that school districts currently build, they could build a ninth with no increase in funding.

BEST COPY AVAILABLE

# State prevailing wage surveys are not representative

Surveys accurately representing the distribution of wages in any county's largest city are not to be had. The Department of Labor and Industries conducts wage surveys in accordance with state law, but concedes that statistically speaking, the surveys typically are unrepresentative.

## Seattle and Spokane area school project costs

In 1998 and 1999 the state provided $49 million in matching funds to King County School Districts for 29 projects with a total cost of $301 million. For Spokane County districts, 10 projects with a total cost of $101 million got $43 million of state funding.

The table below shows the cost per square foot for those projects where we were able to determine the actual square footage.

| | | | ACTUAL SQ. FT. | TOTAL FUNDS | COST PER SQ. FT. |
|---|---|---|---|---|---|
| | **KING COUNTY** | | | | |
| Seattle 1 | Ballard High | r | 245,147 | 42,221,567 | 172.23 |
| | Concord El | m,r | 70,526 | 11,359,611 | 161.07 |
| | Cooper El | r | 72,507 | 12,176,476 | 167.94 |
| | Dunlap El | m,r | 71,331 | 12,271,504 | 172.04 |
| | Highland Park El | r | 73,709 | 11,443,235 | 155.25 |
| | Latona El | m,r | 57,714 | 10,407,042 | 180.32 |
| | Seward/TOPS K-8 Alt | m | 86,888 | 16,556,138 | 190.55 |
| | Stevens El | m,r | 59,040 | 9,966,991 | 168.82 |
| | Whittier El | r | 67,743 | 10,663,605 | 157.41 |
| Bellevue 405 | Robinswood El | m | 42,578 | 4,301,293 | 101.02 |
| | Sunset El | m | 40,304 | 4,690,009 | 116.37 |
| | Tyee Mid | m | 86,594 | 6,644,506 | 76.73 |
| Snoqualmie Valley | Fall City El | m | 48,726 | 5,657,772 | 116.11 |
| 410 | North Bend El | m | 53,418 | 5,552,884 | 103.95 |
| Auburn 408 | Washington El | m | 44,953 | 4,347,190 | 96.71 |
| Highline 401 | Hilltop El | r | 18,615 | 2,999,277 | 161.12 |
| | **SPOKANE COUNTY** | | | | |
| Spokane 81 | Browne El | r | 49,999 | 5,551,540 | 111.03 |
| | Lewis & Clark High | m,r | 272,978 | 34,094,223 | 124.90 |
| | North Central High | n | 27,143 | 3,784,168 | 139.42 |
| Mead 354 | Mead High | m | 236,605 | 27,498,412 | 116.22 |
| Nine Mile Falls 325 | New Middle | n | 63,000 | 6,504,407 | 103.24 |

m: Modernization

n: New Construction

r: New Construction Replacing an Existing Structure (In Lieu Construction)

Source: OSPI, Local school districts



BEST COPY AVAILABLE

They are not random samples. Many nonunion contractors scrap the forms because they feel that union wages will prevail anyway, so why bother.

The latest wage survey by the department, done in 1998, was of roofers. For work done in Spokane County's largest city, Spokane, the department collected only four survey forms. The reported wages ranged from $15 an hour to $23.05. The hours reported with the lower wages totaled only 1,074, whereas the hours associated with the $23.05, the union wage, totaled 59,271.

The department's industrial statistician, Jim Christensen (not the architect mentioned above), readily acknowledges that the wages and hours reported fail to represent the spectrum of wages and hours on roofing construction in Spokane. "It's a poor representation," because so few nonunion roofers returned the survey forms," he says. "It's very biased."

For work done in Seattle, King County's largest city, there were only 16 respondents. Wages ranged from $14.29 an hour to $27.75. Here, too, the unions reported thousands of more hours than did nonunion roofers.

Even if all nonunion contractors faithfully reported wages and hours, union wages might still prevail in Spokane, King, Pierce, Snohomish and Clark counties, Christensen says. "But there's no question in my mind," he adds, that if all contractors would participate in the surveys, union wages would not easily prevail in other counties. "Unions win because open-shop contractors throw away the survey forms," Christensen says.

## School construction costs are lower in Idaho

School construction costs are lower in Idaho than in Washington. One indication of this is that a recent report prepared for the Idaho Department of Education estimated the total project cost of school construction in Idaho in 1999 to be $111.58 per square foot, a combination of $83.58 in hard construction costs and $28.00 in soft costs such as moveable equipment, design fees, management and administrative expenses, and contingencies*. Actual costs in Washington for projects that the state funded in 1998-99 were $135.47.

School district construction projects are less heavily regulated by the state in Idaho than in Washington, and this surely explains part of the cost differences between the states. In addition, Idaho has no system of state matching funds for local school projects. Forced to put the full cost of school construction on local voters, Idaho school districts may choose to build less elaborate schools.

But a major factor explaining Idaho's lower cost is the requirement that workers on school construction projects in Washington state be paid prevailing wages. Idaho repealed its prevailing wage law in 1985.

Three recent projects in the Coeur d'Alene, Idaho, area, shown in the table below, cost about $80 per square foot.

| School | District | Sq. Ft.. | Cost per Sq. Ft |
|---|---|---|---|
| Woodland Middle School | Coeur d'Alene | 100,180 | $83.36 |
| Post Fall High School | Post Falls | 194,750 | $77.19 |
| Skyway Elementary School | Coeur d'Alene | 52,827 | $82.34 |

Source: Architects West

*Idaho Department of Education, "1993 Statewide School Facilities Needs Assessment Update, Appendix," 3D/ International, Inc. and Facility Planners, Co. September 1999, page 32.



BEST COPY AVAILABLE

## Conclusion

There is no serious dispute regarding the prevailing wage premium, the extra costs imposed on taxpayers in states that have adopted prevailing wage laws. In an earlier report, *Prevailing Wage Laws Mandate Excessive Costs* November 30, 1999, the Washington Research Council documented the history of these laws. Stemming from the federal Davis-Bacon Act, these laws protected union labor from low-cost competitors.

In Washington, as shown above, a conservative estimate of the prevailing wage premium is 12.7 percent – that's how much could be cut from the budgets of school construction projects if labor costs were determined by market competition. In other words, for every eight schools built under current conditions, a ninth school could be built for free if school projects were exempt from prevailing wage requirements. National studies put the savings even higher.

Certainly, within the state, labor costs will vary according to market conditions. The savings may be less in the Seattle market, greater in rural Washington. And of course, repeal of the prevailing wage law will itself change the market and more competition may arise, even in the urban Puget Sound region. Nowhere, of course, does prevailing wage legislation hold labor costs below the market. The 12.7 percent calculated here should be easily achievable statewide.

The Washington Research Council holds as a general principle that the marketplace will set prices more efficiently than any regulatory mechanism, however well administered. Despite the best efforts of the Department of Labor and Industries, participation in prevailing wage surveys is limited, with the results skewed toward the union wage.

It doesn't have to be this way. Surveys don't substitute for markets. Union protection is not a meaningful public policy objective. And at a time when thousands of students are forced to attend classes in inadequate classrooms, there can be no justification for inflating the costs of school construction by requiring contractors to pay an arcane "prevailing wage."